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To: County and District Superintendents
County and District Chief Business Officials
Charter School Administrators

From: Janet Sterling, Director
School Fiscal Services Division

Subject: **Proposition 20 – Allocation of Lottery Funds for Instructional Materials**

This letter is intended to provide you with information regarding the implementation of Proposition 20, which was passed by the voters in the March 7, 2000 election. The proposition, known as the “Cardenas Textbook Act of 2000” provides that beginning in 1998-99, fifty percent of any growth in lottery funds for education over the 1997-98 base fiscal year be allocated to school districts and community colleges (K-14 schools) to be used for instructional materials.

Currently, lottery funds for education are distributed to a number of educational agencies, including K-14 schools, the California State University, the University of California, Hastings College of Law, state special schools, and other state-operated schools. The State Controller’s Office (SCO) allocates funding based on average daily attendance (ADA) and the number of full-time students enrolled. Proposition 20 funds will be allocated to K-12 local educational agencies (LEAs) based on their ADA. It should be noted that the Proposition 20 calculation is based on statewide lottery revenue growth, not individual LEA lottery revenue growth, and all LEAs will receive their share of Proposition 20 funds. Lottery funds for education for 1999-00 are projected to grow by about \$83 million over 1997-98. As a consequence of the proposition, about \$41.5 million of the growth is earmarked for K-14 instructional materials.

Implementation Issues

- It appears that the language of Proposition 20 requires that half of the statewide growth funds be allocated first to K-14 schools for instructional materials, with the base funds and the remaining half of the growth funds allocated to all educational agencies. Prior to Proposition 20, growth funds were allocated to all educational agencies, including higher education and other state operated schools. This reading of the language results in K-14 schools receiving a larger percentage of lottery funds since higher education and other state operated schools will no longer receive a share of the first half of growth funds.

- The SCO is in the process of determining if Proposition 20 should be applied retroactively; the language states that it begins in 1998-99. If the calculations are made as discussed above, it will require taking funds back from other than K-14 educational agencies. Any retroactive adjustments would most likely be made against future allocations of lottery revenues since 1998-99 allocations have already been spent.

Lottery Payments to LEAs

The SCO is revising its current lottery payment system to automatically calculate the Proposition 20 amount whenever overall lottery revenues for education exceed the 1997-98 base year amount. For the current year, the base year level should be exceeded in the fourth quarter, with the September 2000 quarterly payment. SCO payment reports should include two separate lines, one for the regular lottery apportionment and one for the Proposition 20 apportionment.

If the proposition is applied retroactively, the SCO anticipates implementing a system that will include the adjustments in the first quarter 2000-01 lottery payment, issued in December 2000. The retroactive adjustment, if any, will be identified on the SCO reports. LEAs must spend that amount on instructional materials.

Instructional Materials Expenditures

- Proposition 20 states that the funds are “for the purchase of instructional materials” and does not define instructional materials any further. *Education Code* Section 60010(h) states that “Instructional materials” means “all materials that are designed for use by pupils and their teachers as a learning resource and help pupils to acquire facts, skills, or opinions or to develop cognitive processes. Instructional materials may be printed or nonprinted, and may include textbooks, technology-based materials, other educational materials, and tests.”
- *Education Code* Section 60119 requires that governing boards of school districts that receive funds for instructional materials from any state source must hold a public hearing or hearings. Since Proposition 20 funds are from a state source, they fall under the requirements of this section. However, if a district has already held their public hearing for the fiscal year, a second hearing need not be held just to address these funds since the main purpose of the public hearing is to make a determination as to whether there are sufficient textbooks and instructional materials, and this would have been accomplished in the first hearing.

Reporting of Proposition 20 Revenues

For LEAs using the standardized account code structure (SACS), a new resource has been established (Resource 6300, Lottery: Instructional Materials) to record Proposition 20 revenues

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and expenditures. LEAs should continue using Resource 1100, Lottery, for recording revenue and expenditures for the unrestricted portion of lottery funds received. LEAs not currently using SACS will need to track the funds in their own system. There is no requirement for interest earned on Proposition 20 funds to be allocated to Resource 6300.

Since the SCO anticipates that Proposition 20 payments will be issued for the fourth quarter of 1999-00, LEAs should accrue this revenue on their books. We will provide an estimate of the fourth quarter accrual amount per ADA and a projection of Proposition 20 revenue for the 2000-01 fiscal year in June. LEAs that have lottery expenditures for instructional materials in the current year may reclassify those expenditures into the new Resource 6300 for 1999-00.

We will continue to keep you informed as decisions are made regarding implementation of this new law. If you have any questions or if we can be of further assistance, please feel free to contact Janet Finley at (916) 323-5091 or by e-mail (jfinley@cde.ca.gov) or Scott Hannan at (916) 327-0538 or by e-mail (shannan@cde.ca.gov).

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